

ORIGINAL



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MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: June 11, 2013

RE: STAFF REPORT IN THE MATTER OF THE APPLICATION OF SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC., FOR AN ORDER APPROVING A COMPREHENSIVE CREDIT MANAGEMENT PROGRAM AND SUPERSEDING AND REPLACING CERTAIN CONSIDERATIONS CONTAINED IN DECISION 72237 PERTAINING TO THE REFINANCING OF SSVEC'S EXISTING AND AUTHORIZED DEBT (DOCKET NO. E-01575A-12-0457)

Attached is the Staff Report for the Sulphur Spring Valley Electric Cooperative's application for approval of its proposed comprehensive credit management program and for authority to refinance its existing and currently authorized debt, thereunder. Staff recommends approval as modified herein.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before June 21, 2013.

SMO:JAC:tdp|WVC

Originator: John A. Cassidy

Arizona Corporation Commission

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**Service List for: Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-12-0457**

**Mr. Kirby Chapman
Chief Financial and Administrative Officer
Sulphur Springs Valley Electric Cooperative, Inc.
311 East Wilcox
Sierra Vista, Arizona 85635**

**Mr. Jeffrey W. Crockett
Brownstein, Hyatt, Farber & Schreck, LLP
One East Washington, Suite 2400
Phoenix, Arizona 85004
Attorneys for Sulphur Springs Valley Electric Cooperative**

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

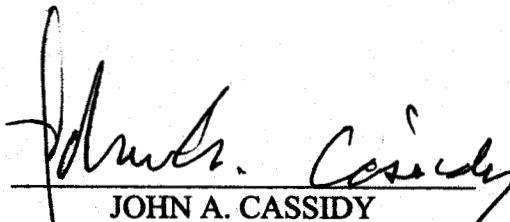
**SULPHUR SPRINGS VALLEY
ELECTRIC COOPERATIVE
DOCKET NO. E-01575A-12-0457**

**APPLICATION FOR AUTHORITY
TO
ENGAGE IN VARIOUS FINANCING TRANSACTIONS**

JUNE 11, 2013

STAFF ACKNOWLEDGMENT

The Staff Report for Sulphur Springs Valley Electric Cooperative, Docket No. E-01575A-12-0457, is the responsibility of the Staff members listed below. John A. Cassidy is responsible for the financial analysis.



JOHN A. CASSIDY
PUBLIC UTILITIES ANALYST III

EXECUTIVE SUMMARY
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE
DOCKET NO. E-01575A-12-0457

On November 6, 2012, Sulphur Springs Valley Electric Cooperative ("SSVEC" or the "Cooperative") filed an application with the Arizona Corporation Commission ("Commission") requesting approval of its proposed Comprehensive Credit Management Program ("CCMP"). The CCMP, as contemplated by SSVEC, would authorize the Cooperative, in addition to borrowing from the National Rural Utilities Cooperative Finance Corporation ("CFC") and CoBank ACB ("CoBank"), to issue commercial paper and bonds in the capital markets to refinance its existing debt, as well as the financing (and subsequent refinancing) of the currently unissued debt authorized in Decision No. 72237. SSVEC intends to use the requested authority to materially lower its borrowing costs and reduce its interest rate risk. The Cooperative's application further requests that certain refinancing conditions contained in Decision No. 72237, which are incompatible with SSVEC's proposed CCMP, be superseded and replaced. SSVEC's application does not seek authority to incur any additional new debt beyond that previously approved by the Commission.

Staff Recommends:

1. Authorizing SSVEC to refinance all or any part of its Existing Debt¹ in the amount of \$170,797,344 (i) using loans from CFC, and/or CoBank and/or another lender, issuing bonds in the capital markets, issuing Commercial Paper,² borrowing under the Credit Facility,³ using the revolving line of credit, or any combination thereof; (ii) at interest rates which the Cooperative determines in its discretion to be the best available interest rates at the time of the refinancing for the applicable class of debt instrument (*i.e.*, loans, bonds, Commercial Paper, Credit Facility or revolving line of credit); and (iii) with a maturity date(s) (either longer or shorter than the original maturity date(s)) selected in the discretion of the Cooperative subject to conditions described in recommendation No. 13 below.
2. Authorizing SSVEC to finance all or any part of the Authorized New Debt⁴ of \$72,676,664, and thereafter to refinance the Authorized New Debt (i) using loans from CFC and/or CoBank and/or another lender, issuing bonds in the capital markets, issuing Commercial Paper, borrowing under the Credit Facility, using

¹ As of the date of filing its application in this docket, the Cooperative's existing debt consisted of \$67,447,647 in loans and clean renewable energy bonds ("CREBs") with CoBank and \$103,349,697 in loans and CREBs with the National Rural Utilities Cooperative Finance Corporation ("CFC") for a total of \$170,797,344.

² Commercial Paper is a short-term unsecured promissory note issued primarily by corporations that have an average maturity of approximately 30 days, but maturities may range from 1 to 270 days. Securities with maturities longer than 270 days are required to be registered with the United States Securities and Exchange Commission.

³ The Credit Facility consists of two components, a line of credit and a five-year term loan, only one of which can be implemented at any point in time in an amount not to exceed \$40 million. The Credit Facility serves solely as a back-up in the event SSVEC cannot rollover or renew its outstanding Commercial Paper.

⁴ The unused debt authorized in Decision No. 72237. SSVEC had used \$6,000,000 of its \$78,676,664 authorization as of September 3, 2012.

the revolving line of credit, or any combination thereof; (ii) at interest rates which the Cooperative determines in its discretion to be the best available interest rates at the time of the financing for the applicable class of debt instrument (*i.e.*, bank loans, bonds, Commercial Paper, Credit Facility or revolving line of credit); and (iii) with a maturity date(s) selected in the discretion of the Cooperative subject to conditions described in recommendation No. 13 below. The amount of the credit facilities with CFC and CoBank approved in Decision No. 72237 shall each be reduced by the amount of any bond issue pertaining to the Authorized New Debt.

3. Defining the authorized CCMP as consisting solely of the authorizations granted in (1) and (2) above and denying SSVEC's authorization to use the CCMP for any future authorizations granted by the Commission to SSVEC to incur indebtedness beyond the \$243,474,008 currently authorized unless the Commission specifically grants use of the CCMP in future decisions.
4. Subjecting the authorizations granted in (1) and (2) above pertaining to the issuance and/or reissuance of Commercial Paper and borrowing under the Credit Facility to the following conditions: (a) at no time shall the combined outstanding Commercial Paper and Credit Facility balance exceed \$40 million; and (b) at no time shall the combined balance of all outstanding Cooperative debt, exclusive of amounts payable less than twelve months from the date of issuance pursuant to A.R.S. § 40-302(D), exceed that specifically authorized by the Commission, currently \$243,474,008.
5. Deny authorization for SSVEC to refinance all or any portion of the Authorized New Debt subsequent to the initial issuance as long-term financing, *i.e.*, except as refinanced in accordance with the Credit Facility authorization granted herein, and deny authorization for SSVEC to refinance all or any portion of the Existing Debt subsequent to the first refinancing as long-term debt, *i.e.*, except as refinanced in accordance with the Credit Facility authorization granted herein.
6. Authorizing SSVEC to maintain its revolving lines of credit with CFC and CoBank (\$16,540,000 combined between the two lenders as of the date of filing the application in this docket) and incur other forms of debt in a combined amount not to exceed 7 percent of total capitalization, which shall be in addition to the issuance of a combined \$40 million of Commercial Paper or term borrowing under the Credit Facility.
7. Authorizing SSVEC to pledge, mortgage, lien, indenture and/or encumber any of the assets of the Cooperative pursuant to A.R.S. §§ 40-285, 40-301 and 40-302 as necessary in order to execute the financing and refinancing authorized herein.
8. Finding that the authorizations as granted herein for the financing and/or refinancing of Existing Debt and Authorized New Debt are consistent with A.R.S. § 40-301(C), and specifically, that the refinancing of the Existing Debt and financing and refinancing of the Authorized New Debt are for lawful purposes

which are within the corporate powers of SSVEC, are compatible with the public interest, with sound financial practices, and with the proper performance by SSVEC of service as a public service corporation, and will not impair SSVEC's ability to perform that service.

9. Finding that the authorizations as granted herein for the financing and/or refinancing of Existing Debt and Authorized New Debt are consistent with A.R.S. § 40-302(A), and specifically, that the refinancing of the Existing Debt and financing and refinancing of the Authorized New Debt are reasonably necessary or appropriate for the purposes and that such purposes are not, wholly or in part, reasonably chargeable to operative expenses or to income.
10. Authorizing SSVEC to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted by the Commission in this docket.
11. Ordering that such portions of the Financing Conditions of Decision No. 72237 that are inconsistent with the CCMP and/or the approvals granted in this docket are superseded and replaced.
12. Directing SSVEC to perform and document an analysis to support the refinancing source(s) it selects for each long-term financing or long-term refinancing of Existing Debt and Authorized New Debt. This recommendation shall not apply to Commercial Paper transactions or transactions under the Credit Facility or revolving lines of credit.
13. Subjecting the authorizations granted in (1) and (2) above pertaining to Existing Debt and Authorized New Debt to the following conditions: (a) that the weighted average maturity of any long-term refinancing obligations not increase or decrease from the weighted average maturity of the obligations to be refinanced by more than twenty-five percent; (b) all long-term financing, except as authorized herein under the Credit Facility or bridge financing (debt held for periods not to exceed 24 months), shall be fixed rate debt (i.e., variable rate long-term financing is not authorized); and (c) the newly issued debt does not directly result in a violation of the terms and/or conditions of any existing debt.
14. Directing the Cooperative to file with Docket Control, as a compliance item in this matter, a memorandum summarizing any initial long-term financing agreement or any long-term refinancing agreement for Existing Debt or Authorized New Debt within 60 days of the closing of such transaction. The memorandum shall specify the former debt obligations refinanced and the portion of the new financing that represents incurrence of new debt. This recommendation shall not apply to Commercial Paper transactions or transactions under the Credit Facility or revolving lines of credit.

15. Directing the Cooperative, as a compliance item in this matter, to provide the Utilities Division Director with a copy of any financing agreement associated with any initial long-term financing or long-term refinancing of Existing Debt or Authorized New Debt within 60 days of the execution of such transaction and filing a letter in Docket Control confirming such. This recommendation shall not apply to Commercial Paper transactions or transactions under the Credit Facility or revolving lines of credit.
16. Establishing that the authorizations granted in (1) and (2) above expire on December 31, 2019, unless the CCMP is extended by further order of the Commission.
17. Within 60 days of the date of the decision in this matter, SSVEC shall file with Docket Control the amount of Existing Debt and the amount of the unused Authorized New Debt as of the date of the decision.
18. Finding that the authorizations granted herein do not include approval to enter into any agreement/contract for any financial derivative security or similar instrument.

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION	1
PUBLIC NOTICE	1
BACKGROUND.....	1
COMPLIANCE	3
THE SPECIFIC REFINANCING REQUEST	3
PURPOSE OF THE PROPOSED REFINANCING	4
FINANCIAL ANALYSIS	5
SELECTED FINANCIAL INFORMATION	5
EXISTING LONG-TERM DEBT	5
DEBT SERVICE COVERAGE	5
CAPITAL STRUCTURE	6
COMPREHENSIVE CREDIT MANAGEMENT PROGRAM.....	6
COMPATIBILITY WITH DECISION NO. 72237	9
STAFF RECOMMENDATIONS.....	10

SCHEDULES

FINANCIAL ANALYSIS	JAC-1
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ATTACHMENTS

AFFIDAVIT OF PUBLICATION	A
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EXHIBITS

COMMERCIAL PAPER AND BOND ISSUANCE PLAN	A
------------------------------------------------------	----------

INTRODUCTION

On November 6, 2012, Sulphur Springs Valley Electric Cooperative, ("SSVEC" or the "Cooperative"), filed its Application with the Arizona Corporation Commission ("Commission") requesting approval of its proposed Comprehensive Credit Management Program ("CCMP"). The CCMP, as contemplated by SSVEC, would authorize the Cooperative, in addition to borrowing from the National Rural Utilities Cooperative Finance Corporation ("CFC") and CoBank ACB ("CoBank"), to issue commercial paper and bonds in the capital markets to refinance its existing debt, as well as the financing (and subsequent refinancing) of the currently unissued debt authorized in Decision No. 72237. The Application further requests that certain refinancing conditions contained in Decision No. 72237 which are incompatible with SSVEC's proposed CCMP be superseded and replaced. SSVEC asserts that the CCMP provides it with additional financing options beyond those currently authorized that have the potential to lower its borrowing costs and reduce its interest rate risk. SSVEC's application does not seek to increase the total authorized outstanding debt beyond that previously approved by the Commission.

PUBLIC NOTICE

On May 21, 2013, the Cooperative filed an affidavit of publication verifying public notice of its financing application. The Cooperative published notice of its financing application in the *San Pedro Valley News-Sun* and the *Arizona Range News* on May 15, 2013, and in the *Sierra Vista Herald* and the *Bisbee Daily Review* on May 15, 2013. These publications are newspapers of general circulation in the area served by SSVEC. The affidavits of publication are attached (Attachment A) along with a copy of the Notice.

BACKGROUND

SSVEC is a member-owned, non-profit cooperative and a Class "A" Arizona public service corporation that provides electric distribution service to approximately 51,000 metered customers in parts of Cochise, Graham, Pima and Santa Cruz Counties, Arizona.

As a regional electric distribution provider, SSVEC purchases power from Arizona Electric Power Cooperative ("AEPSCO"). SSVEC became a partial requirement member ("PRM") of AEPSCO on January 1, 2008.

The Cooperative's current rates were approved in Decision No. 71274, dated September 8, 2009.⁵

At present, SSVEC has total Commission authorized debt of \$243,474,008, of which \$170,797,344 ("Existing Debt") was issued and outstanding as of September 30, 2012. The Cooperative's existing debt portfolio consists of loans and clean renewable energy bonds ("CREBs") issued through both CFC and CoBank, with total CFC debt amounting to

⁵ Docket No. E-01575A-08-0328.

\$103,349,697, and CoBank debt totaling \$67,447,647. SSVEC's outstanding debt has a mix of fixed and variable interest rates ranging from 0.40% for certain of the CREBs, to 2.37% for some of the variable rate loans, to as high as 6.75% for some of the CFC loans. The maturities of the various bank loans range from six months to 31 years, and the CREBs have maturity dates of 11 to 22 years.⁶ Historically, SSVEC has relied primarily upon CFC as its lender. In recent years, however, the Cooperative has begun to rely on CoBank as its lender of choice, as CoBank offers competitive loan products at more attractive interest rates.⁷

In its prior financing docket,⁸ SSVEC requested Commission authorization to issue new debt of \$78,676,664, including \$6,000,000 in CREBS, through a credit facility from CFC and/or CoBank and to pledge, mortgage, lien and/or encumber its assets in connection with the credit facility. The Cooperative subsequently amended that filing,⁹ requesting authority to refinance a portion of its existing debt at more favorable interest rates. In Decision No. 72237, dated March 21, 2011, the Commission authorized both the \$78,676,664 in new indebtedness requested by SSVEC in the original filing in that docket, as well as the refinancing of \$126,282,240 in existing debt as requested in the amended filing in that docket, subject to the following three conditions:

- (a) The interest rate of the refinancing will be more favorable than that of the current debt.
- (b) The term of the loan will not be shorter than the remaining term of the loan to be refinanced.
- (c) The resulting loan will not be an interest-only loan. Rather, the resulting loan should be an amortizing loan that requires the Cooperative to make periodic principal payments no less frequently than yearly.¹⁰

At the date of the Cooperative's filing in the instant docket, only the \$6,000,000 in CREBs had been issued, thus leaving SSVEC with \$72,676,664 ("Authorized New Debt") of unused new debt authorizations.

In addition to its \$170,797,344 Existing Debt and \$72,676,664 Authorized New Debt, SSVEC had revolving lines of credit with CFC and CoBank with a \$16,540,000 combined capacity and with an outstanding balance as of \$1,530,000 at September 30, 2012. SSVEC may borrow up to \$16,540,000 from either CFC or CoBank, or a combination of the two banks, but it may not exceed a total of \$16,540,000 between the two banks. The maximum combined borrowing capacity under these revolving lines of credit is based upon the

⁶ Detail of SSVEC's outstanding CFC and CoBank loans and their re-pricing/repayment status is provided in Attachment 1 of the Application.

⁷ CoBank is the lender for all SSVEC debt issued since May 2011.

⁸ Docket No. E-01575A-10-0311. SSVEC filed its financing application on July 23, 2010, requesting authorization to incur debt to finance its 2010-2012 Construction Work Plan.

⁹ The amended filing was dated December 15, 2010.

¹⁰ Decision No. 72237, p. 6, lines 1-9.

authorization in Arizona Revised Statutes ("A.R.S.") § 40-302(D) which establishes that a public service corporation with operating revenues exceeding \$250,000 may issue notes not exceeding 7 percent of total capitalization if the notes are payable at periods of not more than 12 months from the date of issuance. In summary, at September 30, 2012, SSVEC had total Commission authorized debt of \$243,474,008 composed of \$170,797,344 in Existing Debt and \$72,676,664 in Authorized New Debt, plus it had \$16,540,000 of short-term borrowing capacity under A.R.S. § 40-302(D) with a \$1,530,000 outstanding borrowed balance via revolving lines of credit.

COMPLIANCE

A check of the compliance database indicates that as of May 21, 2013, there were no delinquencies for SSVEC; thus, the Cooperative is "in Compliance."

THE SPECIFIC REFINANCING REQUEST

The Cooperative requests that the Commission issue an order:

1. Authorizing SSVEC to refinance all or any part of its Existing Debt in the amount of \$170,797,344 (i) using loans from CFC and/or CoBank, issuing bonds in the capital markets, issuing Commercial Paper, borrowing under the Credit Facility, using the revolving line of credit, or any combination thereof; (ii) at interest rates which the Cooperative determines in its discretion to be the best available interest rates at the time of the refinancing for the applicable class of debt instrument (*i.e.*, loans, bonds, Commercial Paper, Credit Facility or revolving line of credit); and (iii) with a maturity date (either longer or shorter than the original maturity date) selected in the discretion of the Cooperative.
2. Authorizing SSVEC to finance all or any part of the Authorized New Debt of \$78,676,664, and thereafter to refinance the Authorized New Debt (i) using loans from CFC and/or CoBank, issuing bonds in the capital markets, issuing Commercial Paper, borrowing under the Credit Facility, using the revolving line of credit, or any combination thereof; (ii) at interest rates which the Cooperative determines in its discretion to be the best available interest rates at the time of the financing for the applicable class of debt instrument (*i.e.*, bank loans, bonds, Commercial Paper, Credit Facility or revolving line of credit); and (iii) with a maturity date selected in the discretion of the Cooperative. The amount of the credit facilities with CFC and CoBank approved in Decision No. 72237 shall each be reduced by the amount of any bond issue pertaining to the Authorized New Debt.
3. Authorizing the CCMP for any new borrowing by SSVEC subsequently approved by order of the Commission (*i.e.*, borrowing above and beyond the \$243,474,008 currently authorized by the Commission).

4. Authorizing SSVEC to issue Commercial Paper and/or borrow under the Credit Facility in a combined amount not to exceed \$40 million, with the condition that the combined balance of all outstanding Cooperative debt, exclusive of the Cooperative's revolving lines of credit with CFC and CoBank, may not exceed \$243,474,008.
5. Authorizing SSVEC to refinance all or any portion of the Existing Debt and the Authorized New Debt as frequently as the Cooperative determines in its discretion to be reasonable and prudent in order to manage its cost of debt and interest rate risk, consistent with conditions (1), (2), (3) and (4) above.
6. Authorizing SSVEC to maintain its revolving lines of credit with CFC and CoBank (currently, \$16,540,000 combined between the two lenders) in an amount not to exceed 7% of total capitalization, which shall be in addition to the issuance of a combined \$40 million of Commercial Paper or debt under the Credit Facility.
7. Authorizing SSVEC to pledge, mortgage, lien, indenture and/or encumber any of the assets of the Cooperative pursuant to A.R.S. §§ 40-285, 40-301 and 40-302 as necessary in order to complete the refinancing of the Existing Debt or the issuance and refinancing of the Authorized New Debt.
8. Finding that the granting of the Application is consistent with A.R.S. § 40-301(C), and specifically, that the refinancing of the Existing Debt and financing and refinancing of the Authorized New Debt as described in the Application is for lawful purposes which are within the corporate powers of SSVEC, are compatible with the public interest, with sound financial practices, and with the proper performance by SSVEC of service as a public service corporation, and will not impair SSVEC's ability to perform that service.
9. Finding that the granting of the Application is consistent with A.R.S. § 40-302(A), and specifically, that the refinancing of the Existing Debt and financing and refinancing of the Authorized New Debt as described in the Application is reasonably necessary or appropriate for the purposes described in the Application and that such purposes are not, wholly or in part, reasonably chargeable to operative expenses or to income.
10. Authorizing SSVEC to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted by the Commission in this docket.
11. Ordering that such portions of the Financing Conditions of Decision No. 72237 are inconsistent with the Comprehensive Credit Management Program and/or the approvals granted in this docket are superseded and replaced.

PURPOSE OF THE PROPOSED REFINANCING

As stated in the Application, the purpose of the proposed refinancing is to enable SSVEC to materially lower its borrowing costs and to reduce interest rate risk.

FINANCIAL ANALYSIS

Selected Financial Information

Schedule JAC-1, Column [A] reflects the Cooperative's historical financial information for the year ended, June 30, 2012. Column [B] presents pro forma financial information modifying Column [A] to reflect issuance of \$74,901,830 of 20-year amortizing debt at 4.12 percent reflecting total debt of \$243,474,008 – the maximum long-term debt issuance authorized by the Commission.

Existing Long-Term Debt

As shown in Attachment 1, page 6 of the Application, SSVEC had total outstanding debt of \$170,797,343 ("Existing Debt") at June 24, 2012. The Existing Debt consists of \$67,447,647 in loans and CREBs with CoBank and \$103,349,697 in loans and CREBs with CFC. The \$170,797,343 Existing Debt is comprised of \$108,364,235 that is scheduled to be re-priced between October 2012 and July 2019, \$10,616,092 that is scheduled to be re-priced in 2034, \$25,292,246 of CREBs which SSVEC does not plan to refinance and \$26,524,770 of variable interest rate debt that may be refinanced at minimal conversion cost at any time. Staff calculated 4.12 percent as the overall weighted average cost of this debt.¹¹

Debt Service Coverage

Debt service coverage ratio ("DSC") represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default. The existing CoBank and CFC loan covenants require SSVEC to maintain a DSC of 1.35.

Schedule JAC-1, Column [A] shows a 1.37 DSC for the fiscal year ended, June 30, 2012. A pro forma 1.00 DSC results for the scenario described above for Column [B].¹² The DSC results show that cash flow from operations is sufficient to cover all obligations. Nevertheless, CFC and CoBank require a 1.35 DSC calculated by averaging the two highest annual ratios achieved during the most recent three fiscal years. CFC and CoBank calculate DSC using a different method than Staff that includes recognition of non-operating margin components such

¹¹ The weighted average cost of the \$118,980,328 (\$108,364,235 + \$10,616,092) long-term debt to be re-priced is 4.74 percent. The \$25,292,246 CREB debt has a weighted cost of 3.05 percent, and the \$26,524,770 variable rate debt has a weighted cost of 2.37 percent.

¹² In SSVEC's prior financing docket (Docket No. E-01575A-10-0311), Staff calculated a pro forma 1.17 DSC using its own method and a 1.90 DSC using the lenders' method. For purposes of those prior DSC calculations, Staff utilized operating income of \$15,319,473, an amount reflective of the revenue requirement authorized in Decision No. 71274 for SSVEC's most recent rate case. In the instant docket, however, SSVEC had 2012 operating income of \$10,349,904, and Staff's pro forma 1.00 DSC calculation is reflective of this lower operating revenue number.

as capital credits and interest income. Using the CFC and CoBank method for the scenario described above for Column [B] results in a pro forma 1.20 DSC. The pro forma DSC results would vary from that shown for Column [B] with different pro forma assumptions for operating results, amount borrowed, loan term and/or interest rate. Staff has discussed the marginal pro forma DSC results with SSVEC's management, and it is evaluating the actions, if any, to take to maintain compliance with its debt covenants.

Capital Structure

As of June 30, 2012, SSVEC's capital structure consisted of 2.9 percent short-term debt, 64.7 percent long-term debt, and 32.5 percent equity (Schedule JAC-1, Column [A], lines 19-25). Staff calculated a pro forma capital structure for the scenario described above for Column [B], and it is composed of 2.9 percent short-term debt, 72.1 percent long-term debt and 25.0 percent equity (Schedule JAC-1, Column [B], lines 19-25).

Comprehensive Credit Management Program

The Application does not present a clear and succinct definition of the multifaceted CCMP. Instead, the CCMP is presented in bits throughout the Application allowing its composition to be determined by accumulation of its various parts as Staff has compiled below.

The CCMP introduces an option to use an alternative to the currently authorized method (i.e., obtaining long-term loans from CFC and/or CoBank) of financing the Authorized New Debt¹³ and refinancing the Existing Debt¹⁴ while preserving the ability to use CFC and CoBank when those banks can offer loans that are favorable to bond issuances.

Under this alternative method, the Authorized New Debt and Existing Debt (when interest rate locks on existing debt expire) would initially be financed via low-interest, short-term Commercial Paper;¹⁵ and subsequently, once a sufficiently large pool of debt (i.e., approximately \$40 to \$60 million) has been aggregated, refinanced in a bond offering in the capital markets.¹⁶ The attached Exhibit A provided in response to Utilities Division Staff ("Staff") data request number 3 effectively illustrates the Cooperative's general plan for the alternative financing by presenting its anticipated dates, amounts and types of financing.

¹³ The unused debt authorized in Decision No. 72237. SSVEC had used \$6,000,000 of its \$78,676,664 authorization at September 3, 2012.

¹⁴ Existing debt consists of \$67,447,647 in loans and clean renewable energy bonds ("CREBs") with CoBank and \$103,349,697 in loans and CREBs with the National Rural Utilities Cooperative Finance Corporation ("CFC") for a total of \$170,797,344.

¹⁵ Commercial Paper is a short-term unsecured promissory note issued primarily by corporations that have an average maturity of approximately 30 days, but maturities may range from 1 to 270 days. Securities with maturities longer than 270 day are required to be registered with the United States Securities and Exchange Commission. Once issued, the interest rate on Commercial Paper remains fixed until maturity; however, interest rates on Commercial Paper are subject to change on a daily basis. The Application at page 8 erroneously describes Commercial Paper as "an unsecured promissory note with a maturity date of 30 years but a fixed interest rate term from one to 364 days."

¹⁶ Application p. 7, lines 18-19.

The CCMP also includes a Credit Facility.¹⁷ The Credit Facility consists of two components (1) a \$40 million line of credit¹⁸ and (2) a \$40 million five-year term loan. The Credit Facility serves solely as a back-up in the event SSVEC cannot rollover or renew its outstanding Commercial Paper. The Credit Facility is a subset of the combined Existing Debt and Authorized New Debt; therefore, it has no impact on the total authorized debt. In the event that outstanding Commercial Paper matures and cannot be rolled over, the line of credit would be used to pay off the Commercial Paper. SSVEC anticipates a one-year term for the line of credit with the potential for an additional one-year renewal or refinancing. Under the terms of the Credit Facility if the line of credit expires, the outstanding balance is refinanced via a 5-year loan. Thus, the line of credit and the term loan are integrally tied such that only one or the other can be implemented at any point in time and in an amount not to exceed \$40 million. The Credit Facility serves as an essential component of the alternate financing plan to prevent defaulting on outstanding Commercial Paper in the event that upon maturity SSVEC is unable to rollover or renew its Commercial Paper position.

Accessing the capital markets to issue Commercial Paper and bonds requires obtaining appropriate credit ratings. SSVEC must first obtain an investment grade credit rating from one of the three credit rating agencies (Standard & Poor's, Moody's or Fitch). In response to Staff's data request number 4, the Cooperative indicated that it would need three types of credit ratings prior to issuing commercial paper and bonds. Namely, one rating for SSVEC as an issuing entity, a second rating for its capital market bond issue (a long-term rating), and a third rating for its commercial paper (a short-term rating). To date, the Cooperative has succeeded in obtaining an investment grade "A-" issuer credit rating from Standard & Poor's and an "A-" rating on its implied senior secured obligations from FitchRatings. Both Standard & Poor's and FitchRatings have assigned SSVEC a rating outlook of "Stable."¹⁹

SSVEC is pursuing the option to borrow in the capital markets despite the additional complexity such borrowing presents compared to obtaining long-term loans from CFC and CoBank due to the potential to materially lower its borrowing costs. SSVEC management developed the CCMP with the assistance of an outside financial advisor, and SSVEC's board of directors has authorized implementation of the CCMP subject to approval by the Commission. The Application notes that cooperatives with the requisite credit strength have recently begun to look to the capital markets as a way to reduce interest expense and interest rate risk, citing as an example the savings realized by Guadalupe Valley Electric Cooperative, Inc. ("GVEC"), a rural Texas cooperative, from issuing commercial paper and revenue bonds in the capital markets.

¹⁷ SSVEC anticipates using CoBank for the Credit Facility; however, in an e-mail to Staff dated May 13, 2013, the Cooperative requested that the authorization granted not limit it to using only CoBank.

¹⁸ Application p. 9, lines 1-3, notes, "[b]y way of illustration, Commercial Paper rates are currently less than 0.5% per annum compared to a rate of approximately 2.5% per annum that is being charged on the CoBank revolving line of credit.

¹⁹ The Standard & Poor's Credit Profile and Rating of SSVEC, Inc. is dated March 25, 2013. The FitchRatings Full Rating Report of SSVEC, Inc. is dated March 25, 2013. The Cooperative docketed both reports on April 8, 2013.

The re-pricing feature contained in some of SSVEC's CFC and CoBank loans allows the Cooperative upon entering a long-term (e.g., 30-year) loan to choose an initial period to fix the interest rate, and then, at the end of the initial chosen fixed rate period, SSVEC must select another period with a fixed interest rate. This re-pricing can occur multiple times during the life of the loan. The applicable fixed interest rate is dependent upon the length of the period selected for the fixed interest rate, and the interest rate increases as the term of fixed rate increases. The interest rate available at each re-pricing date is dependent upon the rate available in the market at the re-pricing date.

Re-pricing is an effective tool for managing interest rate risk. Since the fixed interest rate available normally increases as the period of the interest rate lock increases, by obtaining multiple shorter period fixed rate price locks versus a single fixed rate for the entire term of a loan, the average expected interest rate over the entire loan can be reduced. However, if the re-pricing dates occur in periods of relatively high market interest rates, the average interest rate may exceed that which was available for the entire term of the loan on its execution date. In turn, when interest rates are relatively low, issuing fixed rate debt for longer periods can result in interest savings over financing in multiple shorter periods.

The Application notes that borrowing costs are unprecedentedly low. Accordingly, this is an opportune time to refinance for longer versus shorter periods. SSVEC's plan to use Commercial Paper and/or other bridge financing to refinance its Existing Debt and to finance Authorized New Debt via fixed-rate long-term financing in the form of bonds is consistent with sound financial planning. Since the current period of historically low debt cost will in all likelihood eventually succumb to higher costs, expeditious refinancing is desirable. However, the loan agreements for SSVEC's Existing Debt include provisions requiring significant prepayment penalties when the debt is paid before the re-pricing dates presenting an impediment to refinancing most of its Existing Debt in the short term. As a result, SSVEC developed a general plan consistent with the re-pricing dates of its Existing Debt and its anticipated need for the Authorized New Debt as shown in the attached Exhibit A.

Staff concludes that granting SSVEC authority to access the capital markets by issuing Commercial Paper and issuing bonds in conjunction with a Credit Facility as an option in addition to obtaining long-term loans from CFC and CoBank is generally consistent with sound financial practice. However, Staff cautions that the successful experience of GVEC and other cooperatives in implementing CCMP-like financing does not ensure that SSVEC or any other entity will have similar success. Using Commercial Paper and other short-term bridge financing while gathering sufficient debt for refinancing efficiently in a bond issuance presents an exposure to the potential for rising interest rates during the period of the bridge financing. Also, preparation for debt issuance in the capital markets results in the incurrence of costs. These costs may not be fully recovered if the attempt to issue debt is unsuccessful or if the debt issuance is not sufficiently less costly than obtaining loans from traditional lenders. Another consideration is maturity matching. Maturity matching is a sound financing practice whereby the term of debt financing approaches but does not exceed the average useful life of the assets acquired with the proceeds of the financing. Maturity matching ensures that debt does not exist for assets that have

no remaining usefulness. Any authorization to refinance Existing Debt should preserve maturity matching.

Compatibility with Decision No. 72237

The Cooperative's requested ordering paragraph No. 11 presented above, is a consequence from SSVEC recognizing that certain refinancing conditions contained in the ordering language of Decision No. 72237 are incompatible with the alternative financing option of the CCMP, and it requests that those conditions be superseded and replaced.

Paragraph 20(a) of Decision No. 72237 permits refinancing only if "the interest rate of the refinancing will be more favorable than that of the current debt."²⁰ As contemplated under the alternative financing option of the CCMP, SSVEC would initially refinance existing loans after interest rate locks on those loans expire using low-interest, short-term Commercial Paper or variable rate loans; subsequently, once a sufficiently large pool of debt has been aggregated to make a bond offering, SSVEC would refinance the debt by issuing long-term bonds in the capital markets. Thus, when refinancing its debt under the CCMP, interest rates would first decrease in the short term, and then increase as SSVEC takes advantage of long-term bond rates, a circumstance inconsistent with the literal language of Paragraph 20(a).

Paragraph 20(b) of Decision No. 72237 permits refinancing only if "[t]he term of the loan will not be shorter than the remaining term of the loan being refinanced."²¹ Under the alternative financing option of the CCMP, SSVEC would refinance existing loans coming to maturity using short-term Commercial Paper or variable rate loans, and upon aggregating a sufficient pool of debt therefrom, would refinance the debt by issuing long-term bonds in the capital markets. As a consequence, the refinancing instruments contemplated under the CCMP are inconsistent with Paragraph 20(b).

Paragraph 20(c) of Decision No. 72237 permits refinancing only if "the resulting loan will not be an interest-only loan. Rather, the resulting loan should be an amortizing loan that requires the Cooperative to make periodic principal payments no less frequently than yearly." Under the alternative financing option of the proposed CCMP, SSVEC would be issuing Commercial Paper or variable rate loans which may not be amortizing.²² Thus, the refinancing contemplated by SSVEC is not in compliance with Paragraph 20(c) of Decision No. 72237, and to the extent short-term financing exceeds that available under A.R.S. § 40-302(D), the Cooperative needs Commission authorization.

²⁰ Decision No. 72237, Paragraph 20(a), p. 4, lines 16-17.

²¹ Decision No. 72237, Paragraph 20(b), p. 4, lines 18-19.

²² Like Treasury bills, commercial paper is technically a discounted security; the investor purchases the notes at less than face value, and upon maturity the issuer repurchases the notes at face value. The difference between the purchase price and the face value, called the discount, is the interest paid/received; thus, commercial paper is not an amortizing loan as required by Paragraph 20(c).

Lastly, Decision No. 72237 stipulates that SSVEC borrow the authorized new debt from CFC, CoBank, or a combination of the two lenders. However, in this docket the Cooperative seeks authority to issue Commercial Paper and bonds in the capital markets as an alternative to using CFC and/or CoBank to finance the Authorized New Debt.

Staff concludes that waiving the three refinancing conditions in Paragraph 20 of Decision No. 72237 and the restriction to borrow only from CFC and/or CoBank for the purposes of implementing the alternative financing options under the CCMP is appropriate, with the conditions below.

STAFF RECOMMENDATIONS

Staff Recommends:

1. Authorizing SSVEC to refinance all or any part of its Existing Debt in the amount of \$170,797,344 (i) using loans from CFC, and/or CoBank and/or another lender, issuing bonds in the capital markets, issuing Commercial Paper, borrowing under the Credit Facility, using the revolving line of credit, or any combination thereof; (ii) at interest rates which the Cooperative determines in its discretion to be the best available interest rates at the time of the refinancing for the applicable class of debt instrument (*i.e.*, loans, bonds, Commercial Paper, Credit Facility or revolving line of credit); and (iii) with a maturity date(s) (either longer or shorter than the original maturity date(s)) selected in the discretion of the Cooperative subject to conditions described in recommendation No. 13 below.
2. Authorizing SSVEC to finance all or any part of the Authorized New Debt of \$72,676,664, and thereafter to refinance the Authorized New Debt (i) using loans from CFC and/or CoBank and/or another lender, issuing bonds in the capital markets, issuing Commercial Paper, borrowing under the Credit Facility, using the revolving line of credit, or any combination thereof; (ii) at interest rates which the Cooperative determines in its discretion to be the best available interest rates at the time of the financing for the applicable class of debt instrument (*i.e.*, bank loans, bonds, Commercial Paper, Credit Facility or revolving line of credit); and (iii) with a maturity date(s) selected in the discretion of the Cooperative subject to conditions described in recommendation No. 13 below. The amount of the credit facilities with CFC and CoBank approved in Decision No. 72237 shall each be reduced by the amount of any bond issue pertaining to the Authorized New Debt.
3. Defining the authorized CCMP as consisting solely of the authorizations granted in (1) and (2) above and denying SSVEC's authorization to use the CCMP for any future authorizations granted by the Commission to SSVEC to incur indebtedness beyond the \$243,474,008 currently authorized unless the Commission specifically grants use of the CCMP in future decisions.

4. Subjecting the authorizations granted in (1) and (2) above pertaining to the issuance and/or reissuance of Commercial Paper and borrowing under the Credit Facility to the following conditions: (a) at no time shall the combined outstanding Commercial Paper and Credit Facility balance exceed \$40 million; and (b) at no time shall the combined balance of all outstanding Cooperative debt, exclusive of amounts payable less than twelve months from the date of issuance pursuant to A.R.S. § 40-302(D), exceed that specifically authorized by the Commission, currently \$243,474,008.
5. Deny authorization for SSVEC to refinance all or any portion of the Authorized New Debt subsequent to the initial issuance as long-term financing, i.e., except as refinanced in accordance with the Credit Facility authorization granted herein, and deny authorization for SSVEC to refinance all or any portion of the Existing Debt subsequent to the first refinancing as long-term debt, i.e., except as refinanced in accordance with the Credit Facility authorization granted herein.
6. Authorizing SSVEC to maintain its revolving lines of credit with CFC and CoBank (\$16,540,000 combined between the two lenders as of the date of filing the application in this docket) and incur other forms of debt in a combined amount not to exceed 7 percent of total capitalization, which shall be in addition to the issuance of a combined \$40 million of Commercial Paper or term borrowing under the Credit Facility.
7. Authorizing SSVEC to pledge, mortgage, lien, indenture and/or encumber any of the assets of the Cooperative pursuant to A.R.S. §§ 40-285, 40-301 and 40-302 as necessary in order to execute the financing and refinancing authorized herein.
8. Finding that the authorizations as granted herein for the financing and/or refinancing of Existing Debt and Authorized New Debt are consistent with A.R.S. § 40-301(C), and specifically, that the refinancing of the Existing Debt and financing and refinancing of the Authorized New Debt are for lawful purposes which are within the corporate powers of SSVEC, are compatible with the public interest, with sound financial practices, and with the proper performance by SSVEC of service as a public service corporation, and will not impair SSVEC's ability to perform that service.
9. Finding that the authorizations as granted herein for the financing and/or refinancing of Existing Debt and Authorized New Debt are consistent with A.R.S. § 40-302(A), and specifically, that the refinancing of the Existing Debt and financing and refinancing of the Authorized New Debt are reasonably necessary or appropriate for the purposes and that such purposes are not, wholly or in part, reasonably chargeable to operative expenses or to income.
10. Authorizing SSVEC to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted by the Commission in this docket.

11. Ordering that such portions of the Financing Conditions of Decision No. 72237 that are inconsistent with the CCMP and/or the approvals granted in this docket are superseded and replaced.
12. Directing SSVEC to perform and document an analysis to support the refinancing source(s) it selects for each long-term financing or long-term refinancing of Existing Debt and Authorized New Debt. This recommendation shall not apply to Commercial Paper transactions or transactions under the Credit Facility or revolving lines of credit.
13. Subjecting the authorizations granted in (1) and (2) above pertaining to Existing Debt and Authorized New Debt to the following conditions: (a) that the weighted average maturity of any long-term refinancing obligations not increase or decrease from the weighted average maturity of the obligations to be refinanced by more than twenty-five percent; (b) all long-term financing, except as authorized herein under the Credit Facility or bridge financing (debt held for periods not to exceed 24 months), shall be fixed rate debt (i.e., variable rate long-term financing is not authorized); and (c) the newly issued debt does not directly result in a violation of the terms and/or conditions of any existing debt.
14. Directing the Cooperative to file with Docket Control, as a compliance item in this matter, a memorandum summarizing any initial long-term financing agreement or any long-term refinancing agreement for Existing Debt or Authorized New Debt within 60 days of the closing of such transaction. The memorandum shall specify the former debt obligations refinanced and the portion of the new financing that represents incurrence of new debt. This recommendation shall not apply to Commercial Paper transactions or transactions under the Credit Facility or revolving lines of credit.
15. Directing the Cooperative, as a compliance item in this matter, to provide the Utilities Division Director with a copy of any financing agreement associated with any initial long-term financing or long-term refinancing of Existing Debt or Authorized New Debt within 60 days of the execution of such transaction and filing a letter in Docket Control confirming such. This recommendation shall not apply to Commercial Paper transactions or transactions under the Credit Facility or revolving lines of credit.
16. Establishing that the authorizations granted in (1) and (2) above expire on December 31, 2019, unless the CCMP is extended by further order of the Commission.
17. Within 60 days of the date of the decision in this matter, SSVEC shall file with Docket Control the amount of Existing Debt and the amount of the unused Authorized New Debt as of the date of the decision.
18. Finding that the authorizations granted herein do not include approval to enter into any agreement/contract for any financial derivative security or similar instrument.

FINANCIAL ANALYSIS

Selected Financial Information

		[A] ¹ <u>6/30/2012</u>		[B] ² <u>Pro Forma</u>	
1	Operating Income	\$ 10,349,904		\$ 10,349,904	
2	Depreciation & Amort.	9,462,769		9,462,769	
3	Income Tax Expense	0		0	
4					
5	Interest Expense	7,118,083		10,037,218	
6	Repayment of Principal	7,299,939		9,690,007	
7					
8					
9					
10					
11	DSC³				
12	[1+2+3] ÷ [5+6]	1.37		1.00	
13					
14					
15					
16					
17	Capital Structure				
18					
19	Short-term Debt	7,167,787	2.9%	9,557,855	2.9%
20					
21	Long-term Debt	161,404,391	64.7%	233,916,153	72.1%
22					
23	Common Equity	81,025,765	32.5%	81,025,765	25.0%
24					
25	Total Capital	\$ 249,597,943	100.0%	\$ 324,499,773	100.0%
26					
27					

¹ Column [A] is based on financial information for the fiscal year ended, June 30, 2012.

² Column [B] is Column [A] modified to reflect issuance of a \$74,901,830, 20-year amortizing debt at 4.12 percent resulting in \$243,474,008 of total outstanding debt - the maximum long-term debt issuance authorized by the Commission.

³ Calculated using Staff's DSC method.

ATTACHMENT A

STATE OF ARIZONA)
COUNTY OF COCHISE)

AFFIDAVIT OF PUBLICATION

DEEDEE HICKS



being first

duly sworn, deposes and says: That (he) (she) is the Agent to the Publisher of the SAN PEDRO VALLEY NEWS-SUN and the ARIZONA RANGE NEWS newspapers printed and published weekly in the County of Cochise, State of Arizona, and of general circulation in the city of Benson, County of Cochise, State of Arizona and elsewhere, and hereto attached

APPLICATION: ORDER
APPROVING COMPREHENSIVE CREDIT MANAGEMENT PROGRAM
E01575A120457

was printed and published correctly in the regular and entire issue of said SAN PEDRO VALLEY NEWS SUN and or ARIZONA RANGE NEWS for 1 issue, that the first was

made on the 15th day of MAY 20 13

and the last publication thereof was made on the 15th day of

MAY 20 13

that said publication

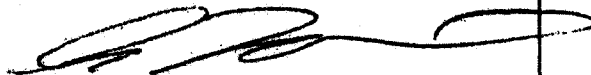
was made on each of the following dates, to wit:

05/15/13

Request of SSVEC

**San Pedro Valley News-Sun
Arizona Range News**

By



Subscribed sworn to before me this 15th day of MAY 20 13



Notary Public in and for the County of Cochise, State of Arizona

My Commission Expires: May 1, 2015

PUBLIC NOTICE

Regarding

Sulphur Springs Valley Electric Cooperative, Inc.'s Application for an Order Approving Its Comprehensive Credit Management Program and Superseding and Replacing Certain Conditions Contained in Decision 72237 Pertaining to the Refinancing of SSVEC's Existing and Authorized Debt (Docket No. E-01575A-12-0457).

Summary

On November 6, 2012, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") filed an application ("Application") with the Arizona Corporation Commission ("Commission") for an order approving its comprehensive credit management program and superseding and replacing certain conditions contained in Decision 72237 pertaining to the refinancing of SSVEC's existing and authorized debt. Pursuant to the Application, SSVEC is seeking authority from the Commission to refinance all or part of its existing debt and authorized debt using commercial paper and bonds in addition to other approved lenders.

Public Comment and Intervention

Written public comments may be submitted by mailing a letter referencing Docket No. E-01575A-12-0457 to the Commission's Consumer Services Section at 1200 W. Washington, Phoenix, Arizona 85007, or by e-mail. For a form to use and instructions on how to e-mail comments to the Commission, go to <http://www.azcc.gov/Divisions/Utilities/forms/PublicCommentForm1.pdf>.

Requests to intervene may be filed in Docket No. E-01575A-12-0457 by any person entitled by law to intervene or who is directly and substantially affected by the proceeding. If you require assistance, either to provide public comment or to seek intervention, you may contact the Consumer Services Section at 602-542-4251 or 1-800-222-7000. All motions to intervene must be filed on or before the 15th day after publication of this notice.

The Commission may approve the Application with or without a hearing.

How You Can View or Obtain a Copy of the Petition

A copy of the Application is available for public inspection during regular business hours at SSVEC's offices located at 350 N. Haskell, Wilcox, Arizona 85643 and 311 E. Wilcox Drive, Sierra Vista, Arizona 85635, and during regular business hours at the Commission's Docket Control Center at 1200 W. Washington Street, Phoenix, Arizona, 85007, and on the internet via the Commission's website (www.azcc.gov) using the e-Docket function.

ADA/Equal Access Information

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015442\0005\1748098.1

Publish May 15, 2013
Arizona Range News.

STATE OF ARIZONA)
COUNTY OF COCHISE)

AFFIDAVIT OF PUBLICATION
PAMELA M. MCELROY

P. Mcelroy being first
duly sworn, deposes and says: That (he) (she) is the Agent to the Publisher of the
SIERRA VISTA HERALD and the BISBEE DAILY REVIEW newspapers printed and
published seven days a week in the County of Cochise, State of Arizona, and of general
circulation in the cities of Sierra Vista and Bisbee, County of Cochise, State of Arizona
and elsewhere, and hereto attached

PUBLIC NOTICE
REGARDING SSVEC, INC
APPLICATION FOR AN
ORDER APPROVING IT'S
COMPREHENSIVE CREDIT

was printed and published correctly in the regular and entire issue of said SIERRA VISTA
HERALD and BISBEE DAILY REVIEW for 1 issues, that the first was

made on the 15th day of MAY 20 13

and the last publication thereof was made on the 15th day of

MAY 20 13 that said publication

was made on each of the following dates, to wit:

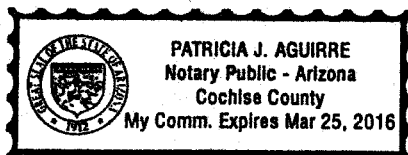
05/15/13

Request of SSVEC

SIERRA VISTA
HERALD BISBEE DAILY
REVIEW

By

Subscribed sworn to before me this 15th day of MAY
20 13



Patricia J. Aguirre

Notary Public in and for the County of Cochise, State of Arizona

My Commission Expires:

Mar 25, 2016

PUBLIC NOTICE

Regarding

Sulphur Springs Valley Electric Cooperative, Inc.'s Application for an Order Approving its Comprehensive Credit Management Program and Superseding and Replacing Certain Conditions Contained in Decision 72237 Pertaining to the Refinancing of SSVEC's Existing and Authorized Debt (Docket No. E-01575A-12-0457).

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015442\0005\1748098.1

Published: 15 May 2013

PUBLIC NOTICE

Regarding

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EXHIBIT A

ST Borrowing Subject to CP Ref					Graph #1			Graph #2	
Date	4/30/2013 Balance	New Construction	CP Paid	Total ST	Outstanding	LOC / ST Variable	CP Monthly	CP Monthly	CP Monthly
	Loans Repaid		Off With Bonds	Outstanding	Outstanding CP		Interest Savings	CP Monthly	CP Monthly
4/1/2013	\$ 44,931,473.79			\$ 44,931,473.79	\$ 40,000,000.00	\$ 4,931,473.79	\$ 66,666.67	\$ 66,666.67	\$ 66,666.67
5/1/2013	\$ 3,580,094.68	\$ 1,492,727.27		\$ 50,004,295.74	\$ 40,000,000.00	\$ 10,004,295.74	\$ 66,666.67	\$ 133,333.33	\$ 133,333.33
6/1/2013		\$ 1,492,727.27		\$ 51,497,023.02	\$ 40,000,000.00	\$ 11,497,023.02	\$ 66,666.67	\$ 200,000.00	\$ 200,000.00
7/1/2013	\$ 5,561,994.28	\$ 1,492,727.27	\$ (50,000,000)	\$ 8,551,744.57	\$ 8,551,744.57	\$ -	\$ 14,252.91	\$ 214,252.91	\$ 214,252.91
8/1/2013		\$ 1,492,727.27		\$ 10,044,471.84	\$ 10,044,471.84	\$ -	\$ 16,740.79	\$ 230,993.69	\$ 230,993.69
9/1/2013		\$ 1,492,727.27		\$ 11,537,199.11	\$ 11,537,199.11	\$ -	\$ 19,228.67	\$ 250,222.36	\$ 250,222.36
10/1/2013		\$ 1,492,727.27		\$ 13,029,926.39	\$ 13,029,926.39	\$ -	\$ 21,716.54	\$ 271,938.90	\$ 271,938.90
11/1/2013		\$ 1,492,727.27		\$ 14,522,653.66	\$ 14,522,653.66	\$ -	\$ 24,204.42	\$ 296,143.33	\$ 296,143.33
12/1/2013		\$ 1,492,727.27		\$ 16,015,380.93	\$ 16,015,380.93	\$ -	\$ 26,692.30	\$ 322,835.63	\$ 322,835.63
1/1/2014	\$ 4,663,802.25	\$ 1,492,727.27		\$ 22,171,910.45	\$ 22,171,910.45	\$ -	\$ 36,953.18	\$ 359,788.81	\$ 359,788.81
2/1/2014		\$ 1,492,727.27		\$ 23,664,637.73	\$ 23,664,637.73	\$ -	\$ 39,441.06	\$ 399,229.87	\$ 399,229.87
3/1/2014	\$ 5,428,671.81	\$ 1,492,727.27		\$ 30,586,036.81	\$ 30,586,036.81	\$ -	\$ 50,976.73	\$ 450,206.60	\$ 450,206.60
4/1/2014		\$ 1,492,727.27		\$ 32,078,764.08	\$ 32,078,764.08	\$ -	\$ 53,464.61	\$ 503,671.21	\$ 503,671.21
5/1/2014	\$ 3,614,918.02	\$ 1,492,727.27		\$ 37,186,409.38	\$ 37,186,409.38	\$ -	\$ 61,977.35	\$ 565,648.56	\$ 565,648.56
6/1/2014		\$ 1,492,727.27		\$ 38,679,136.65	\$ 38,679,136.65	\$ -	\$ 64,465.23	\$ 630,113.79	\$ 630,113.79
7/1/2014	\$ 2,829,073.77	\$ 1,492,727.27		\$ 43,000,937.69	\$ 40,000,000.00	\$ 3,000,937.69	\$ 66,666.67	\$ 696,780.45	\$ 696,780.45
8/1/2014		\$ 1,492,727.27		\$ 44,493,664.96	\$ 40,000,000.00	\$ 4,493,664.96	\$ 66,666.67	\$ 763,447.12	\$ 763,447.12
9/1/2014		\$ 1,492,727.27		\$ 45,986,392.24	\$ 40,000,000.00	\$ 5,986,392.24	\$ 66,666.67	\$ 830,113.79	\$ 830,113.79
10/1/2014		\$ 1,492,727.27		\$ 47,479,119.51	\$ 40,000,000.00	\$ 7,479,119.51	\$ 66,666.67	\$ 896,780.45	\$ 896,780.45
11/1/2014	\$ 2,729,407.48	\$ 1,492,727.27		\$ 51,701,254.26	\$ 40,000,000.00	\$ 11,701,254.26	\$ 66,666.67	\$ 963,447.12	\$ 963,447.12
12/1/2014		\$ 1,492,727.27		\$ 53,193,981.53	\$ 40,000,000.00	\$ 13,193,981.53	\$ 66,666.67	\$ 1,030,113.79	\$ 1,030,113.79
1/1/2015	\$ 4,672,341.08	\$ 1,492,727.27	\$ (50,000,000)	\$ 9,359,049.89	\$ 9,359,049.89	\$ -	\$ 15,598.42	\$ 1,045,712.20	\$ 1,045,712.20
2/1/2015	\$ 11,316,295.08	\$ 1,492,727.27		\$ 22,168,072.24	\$ 22,168,072.24	\$ -	\$ 36,946.79	\$ 1,082,658.99	\$ 1,082,658.99
3/1/2015		\$ 1,492,727.27		\$ 23,660,799.51	\$ 23,660,799.51	\$ -	\$ 39,434.67	\$ 1,122,093.66	\$ 1,122,093.66
4/1/2015	\$ 7,942,924.11	\$ 1,492,727.27		\$ 33,096,450.90	\$ 33,096,450.90	\$ -	\$ 55,180.75	\$ 1,177,254.41	\$ 1,177,254.41
5/1/2015		\$ 1,492,727.27		\$ 34,589,178.17	\$ 34,589,178.17	\$ -	\$ 57,648.63	\$ 1,234,903.04	\$ 1,234,903.04
6/1/2015		\$ 1,492,727.27		\$ 36,081,905.44	\$ 36,081,905.44	\$ -	\$ 60,136.51	\$ 1,295,039.55	\$ 1,295,039.55
7/1/2015		\$ 1,492,727.27		\$ 37,574,632.71	\$ 37,574,632.71	\$ -	\$ 62,624.39	\$ 1,357,663.93	\$ 1,357,663.93
8/1/2015		\$ 1,492,727.27		\$ 39,067,359.99	\$ 39,067,359.99	\$ -	\$ 65,112.27	\$ 1,422,776.20	\$ 1,422,776.20
9/1/2015		\$ 1,492,727.27		\$ 40,560,087.26	\$ 40,000,000.00	\$ 560,087.26	\$ 66,666.67	\$ 1,489,442.87	\$ 1,489,442.87
10/1/2015		\$ 1,492,727.27		\$ 42,052,814.53	\$ 40,000,000.00	\$ 2,052,814.53	\$ 66,666.67	\$ 1,556,109.53	\$ 1,556,109.53
11/1/2015		\$ 1,492,727.27		\$ 43,545,541.80	\$ 40,000,000.00	\$ 3,545,541.80	\$ 66,666.67	\$ 1,622,776.20	\$ 1,622,776.20
12/1/2015		\$ 1,492,727.27		\$ 45,038,269.08	\$ 40,000,000.00	\$ 5,038,269.08	\$ 66,666.67	\$ 1,689,442.87	\$ 1,689,442.87
1/1/2016		\$ 1,492,727.27		\$ 46,530,996.35	\$ 40,000,000.00	\$ 6,530,996.35	\$ 66,666.67	\$ 1,756,109.53	\$ 1,756,109.53
2/1/2016		\$ 1,492,727.27		\$ 48,023,723.62	\$ 40,000,000.00	\$ 8,023,723.62	\$ 66,666.67	\$ 1,822,776.20	\$ 1,822,776.20
3/1/2016	\$ 2,743,772.90	\$ 1,492,727.27	\$ (50,000,000)	\$ 2,260,223.80	\$ 2,260,223.80	\$ -	\$ 3,767.04	\$ 1,826,543.24	\$ 1,826,543.24
4/1/2016		\$ 1,492,727.27		\$ 3,752,951.07	\$ 3,752,951.07	\$ -	\$ 6,254.92	\$ 1,832,798.16	\$ 1,832,798.16
5/1/2016	\$ 16,152,908.36	\$ 1,492,727.27		\$ 21,398,587.70	\$ 21,398,587.70	\$ -	\$ 35,664.31	\$ 1,868,462.47	\$ 1,868,462.47
6/1/2016		\$ 1,492,727.27		\$ 22,891,314.97	\$ 22,891,314.97	\$ -	\$ 38,152.19	\$ 1,906,614.66	\$ 1,906,614.66
7/1/2016		\$ 1,492,727.27		\$ 24,384,042.25	\$ 24,384,042.25	\$ -	\$ 40,640.07	\$ 1,947,254.73	\$ 1,947,254.73
8/1/2016		\$ 1,492,727.27		\$ 25,876,769.52	\$ 25,876,769.52	\$ -	\$ 43,127.95	\$ 1,990,382.68	\$ 1,990,382.68
9/1/2016		\$ 1,492,727.27		\$ 27,369,496.79	\$ 27,369,496.79	\$ -	\$ 45,615.83	\$ 2,035,998.51	\$ 2,035,998.51
10/1/2016	\$ 643,775.94	\$ 1,492,727.27		\$ 29,506,000.00	\$ 29,506,000.00	\$ -	\$ 48,176.67	\$ 2,085,175.18	\$ 2,085,175.18
11/1/2016		\$ 1,492,727.27		\$ 30,998,727.28	\$ 30,998,727.28	\$ -	\$ 51,664.55	\$ 2,136,839.72	\$ 2,136,839.72
12/1/2016		\$ 1,492,727.27		\$ 32,491,454.55	\$ 32,491,454.55	\$ -	\$ 54,152.42	\$ 2,189,992.15	\$ 2,189,992.15
1/1/2017		\$ 1,666,666.67		\$ 34,158,121.22	\$ 34,158,121.22	\$ -	\$ 56,930.20	\$ 2,247,922.35	\$ 2,247,922.35
2/1/2017		\$ 1,666,666.67		\$ 35,824,787.88	\$ 35,824,787.88	\$ -	\$ 59,707.98	\$ 2,307,630.33	\$ 2,307,630.33
3/1/2017		\$ 1,666,666.67		\$ 37,491,454.55	\$ 37,491,454.55	\$ -	\$ 62,485.76	\$ 2,370,116.09	\$ 2,370,116.09
4/1/2017		\$ 1,666,666.67		\$ 39,158,121.22	\$ 39,158,121.22	\$ -	\$ 65,263.54	\$ 2,435,379.62	\$ 2,435,379.62
5/1/2017	\$ 5,477,483.90	\$ 1,666,666.67		\$ 46,302,281.78	\$ 40,000,000.00	\$ 6,302,281.78	\$ 66,666.67	\$ 2,502,046.29	\$ 2,502,046.29
6/1/2017		\$ 1,666,666.67		\$ 47,968,948.45	\$ 40,000,000.00	\$ 7,968,948.45	\$ 66,666.67	\$ 2,568,712.96	\$ 2,568,712.96
7/1/2017		\$ 1,666,666.67		\$ 49,635,615.12	\$ 40,000,000.00	\$ 9,635,615.12	\$ 66,666.67	\$ 2,635,379.62	\$ 2,635,379.62
8/1/2017		\$ 1,666,666.67	\$ (50,000,000)	\$ 1,302,281.78	\$ 1,302,281.78	\$ -	\$ 2,170.47	\$ 2,637,550.09	\$ 2,637,550.09
9/1/2017		\$ 1,666,666.67		\$ 2,968,948.45	\$ 2,968,948.45	\$ -	\$ 4,948.25	\$ 2,642,498.34	\$ 2,642,498.34
10/1/2017		\$ 1,666,666.67		\$ 4,635,615.12	\$ 4,635,615.12	\$ -	\$ 7,726.03	\$ 2,650,224.36	\$ 2,650,224.36
11/1/2017		\$ 1,666,666.67		\$ 6,302,281.78	\$ 6,302,281.78	\$ -	\$ 10,503.80	\$ 2,660,728.17	\$ 2,660,728.17
12/1/2017		\$ 1,666,666.67		\$ 7,968,948.45	\$ 7,968,948.45	\$ -	\$ 13,281.58	\$ 2,674,009.75	\$ 2,674,009.75
1/1/2018		\$ 1,666,666.67		\$ 9,635,615.12	\$ 9,635,615.12	\$ -	\$ 16,059.36	\$ 2,690,069.11	\$ 2,690,069.11
2/1/2018		\$ 1,666,666.67		\$ 11,302,281.78	\$ 11,302,281.78	\$ -	\$ 18,837.14	\$ 2,708,906.24	\$ 2,708,906.24
3/1/2018		\$ 1,666,666.67		\$ 12,968,948.45	\$ 12,968,948.45	\$ -	\$ 21,614.91	\$ 2,730,521.16	\$ 2,730,521.16
4/1/2018		\$ 1,666,666.67		\$ 14,635,615.12	\$ 14,635,615.12	\$ -	\$ 24,392.69	\$ 2,754,913.85	\$ 2,754,913.85
5/1/2018	\$ 5,009,308.73	\$ 1,666,666.67		\$ 21,311,590.51	\$ 21,311,590.51	\$ -	\$ 35,519.32	\$ 2,790,433.17	\$ 2,790,433.17
6/1/2018		\$ 1,666,666.67		\$ 22,978,257.18	\$ 22,978,257.18	\$ -	\$ 38,297.10	\$ 2,828,730.26	\$ 2,828,730.26
7/1/2018		\$ 1,666,666.67		\$ 24,644,923.85	\$ 24,644,923.85	\$ -	\$ 41,074.87	\$ 2,869,805.13	\$ 2,869,805.13
8/1/2018		\$ 1,666,666.67		\$ 26,311,590.51	\$ 26,311,590.51	\$ -	\$ 43,852.65	\$ 2,913,657.79	\$ 2,913,657.79
9/1/2018		\$ 1,666,666.67		\$ 27,978,257.18	\$ 27,978,257.18	\$ -	\$ 46,630.43	\$ 2,960,288.21	\$ 2,960,288.21
10/1/2018		\$ 1,666,666.67		\$ 29,644,923.85	\$ 29,644,923.85	\$ -	\$ 49,408.21	\$ 3,009,696.42	\$ 3,009,696.42
11/1/2018		\$ 1,666,666.67		\$ 31,311,590.51	\$ 31,311,590.51	\$ -	\$ 52,185.98	\$ 3,061,882.40	\$ 3,061,882.40
12/1/2018		\$ 1,666,666.67		\$ 32,978,257.18	\$ 32,978,257.18	\$ -	\$ 54,963.76	\$ 3,116,846.17	\$ 3,116,846.17
1/1/2019	\$ 18,629,856.61	\$ 1,666,666.67	\$ (50,000,000)	\$ 3,274,780.46	\$ 3,274,780.46	\$ -	\$ 5,457.97	\$ 3,122,304.13	\$ 3,122,304.13

Total Refi Loans \$ 145,928,113.79 \$ 107,346,666.67 \$ (250,000,000.00)

Total CFC/CoBank Loans \$ 174,081,143.20

Difference - Loans that will not reprice by 1/31/2019 \$ 28,153,029.41

Footnotes on Current Approved Loan

Loans To Be Drawn 4/30/2013

Through December 31, 2016 \$ 65,680,000.00

Monthly Draw (45 Months) \$ 1,492,727.27

Footnotes on Current Approved Loan

Next Loan est \$20,000,000 Yr/ 1,666,666.67

Abbreviations

CP = Commercial Paper

LT = Long Term

ST = Short Term

Short Term = CP Outstanding + LT Variable or LOC